

**REPORT OF THE AUDIT OF THE
MUHLENBERG COUNTY
SHERIFF'S SETTLEMENT - 2007 UNMINED COAL TAXES**

**For The Period
February 15, 2008 Through September 19, 2008**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST, CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MUHLENBERG COUNTY SHERIFF'S SETTLEMENT - 2007 UNMINED COAL TAXES

**For The Period
February 15, 2008 Through September 19, 2008**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Unmined Coal Taxes for the Muhlenberg County Sheriff for the period February 15, 2008 through September 19, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$257,853 for the districts for 2007 Unmined Coal taxes, retaining commissions of \$8,687 to operate the Sheriff's office. The Sheriff distributed taxes of \$249,158 to the districts for 2007 Unmined Coal Taxes. Taxes of \$10 are due to the districts from the Sheriff and refunds of \$2 are due to the Sheriff from the taxing districts.

Report Comment:

The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2007 UNMINED COAL TAXES	3
NOTES TO FINANCIAL STATEMENT	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	9
COMMENT AND RECOMMENDATION	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Rick Newman, Muhlenberg County Judge/Executive

Honorable Charles E. Perry, Muhlenberg County Sheriff

Members of the Muhlenberg County Fiscal Court

Independent Auditor's Report

We have audited the Muhlenberg County Sheriff's Settlement - 2007 Unmined Coal Taxes for the period February 15, 2008 through September 19, 2008. This tax settlement is the responsibility of the Muhlenberg County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Muhlenberg County Sheriff's taxes charged, credited, and paid for the period February 15, 2008 through September 19, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Rick Newman, Muhlenberg County Judge/Executive

Honorable Charles E. Perry, Muhlenberg County Sheriff

Members of the Muhlenberg County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen

Auditor of Public Accounts

December 7, 2009

MUHLENBERG COUNTY
CHARLES E. PERRY, SHERIFF
SHERIFF'S SETTLEMENT - 2007 UNMINED COAL TAXES

For The Period February 15, 2008 Through September 19, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Official Receipts for Unmined Coal	\$ 35,385	\$ 44,078	\$ 176,166	\$ 44,489
Penalties	34	43	170	42
Gross Chargeable to Sheriff	35,419	44,121	176,336	44,531
<u>Credits</u>				
Exonerations	4,555	5,737	22,415	5,592
Discounts	413	511	2,074	528
Delinquent Real Estate	87	109	427	106
Total Credits	5,055	6,357	24,916	6,226
Taxes Collected	30,364	37,764	151,420	38,305
Less: Commissions *	1,290	1,605	4,164	1,628
Taxes Due	29,074	36,159	147,256	36,677
Taxes Paid	29,072	36,161	147,251	36,674
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	\$ 2	\$ (2)	\$ 5	\$ 3

* And ** See Next Page.

The accompanying notes are an integral part of this financial statement.

MUHLENBERG COUNTY
CHARLES E. PERRY, SHERIFF
SHERIFF'S SETTLEMENT - 2007 UNMINED COAL TAXES
For The Period February 15, 2008 Through September 19, 2008
(Continued)

* Commissions:

4.25% on	\$	106,433
2.75% on	\$	151,420

** Special Taxing Districts:

Health District	\$	(1)
Extension District		<u>(1)</u>

Refunds Due Sheriff	\$	<u><u>(2)</u></u>
---------------------	----	-------------------

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT

September 19, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
September 19, 2008
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Muhlenberg County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of September 19, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2007. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 15, 2008 through September 19, 2008.

Note 4. Interest Income

The Muhlenberg County Sheriff earned \$33 as interest income on 2007 Unmined Coal taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Muhlenberg County Sheriff collected \$319 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Muhlenberg County Sheriff collected \$9 of advertising costs and \$25 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rick Newman, Muhlenberg County Judge/Executive
Honorable Charles E. Perry, County Sheriff
Members of the Muhlenberg County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Muhlenberg County Sheriff's Settlement - 2007 Unmined Coal Taxes for the period February 15, 2008 through September 19, 2008, and have issued our report thereon dated December 7, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Muhlenberg County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Muhlenberg County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Muhlenberg County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Muhlenberg County Sheriff's Settlement - 2007 Unmined Coal Taxes for the period February 15, 2008 through September 19, 2008 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Muhlenberg County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

December 7, 2009

COMMENT AND RECOMMENDATION

MUHLENBERG COUNTY
CHARLES E. PERRY, SHERIFF
COMMENT AND RECOMMENDATION

For The Period February 15, 2008 Through September 19, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY/MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

Our review of internal controls revealed a lack of segregation of duties over cash receipts, cash disbursements, and the bank reconciliation process.

The Sheriff's Bookkeeper collected money, prepared deposits, and prepared daily collection printout. The Bookkeeper also prepared monthly reports, prepared checks, and delivered/mailed checks to taxing districts. The monthly bank reconciliation process is also done by the Bookkeeper. The Sheriff did not document oversight of all of these activities. The Sheriff should implement the compensating controls noted below to offset these internal control weaknesses.

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He can document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should require the monthly tax distribution reports be reconciled monthly to receipts and disbursements ledgers.
- The Sheriff should periodically compare the monthly tax distribution reports to receipts ledger for accuracy. Any differences should be reconciled. The Sheriff should document this by initialing the monthly tax distribution report.
- The Sheriff should periodically compare payments to taxing districts to checks. The Sheriff should document this by initialing the monthly tax distribution reports, noting that payment amounts were agreed to checks.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: None.

